

Cruising ahead

On a recent visit to Mumbai, Eivind Kolding, a member of the executive board of the Danish shipping giant AP Moller – Maersk Group, was simply ecstatic. The head honcho of the world's largest container line quickly drew up plans to enhance his company's exposure to the subcontinent.

"The domestic market is vibrant, and we are extremely positive about India. Here, all our customers are optimistic, and are predicting much faster Export-Import trade," says the latest member of the elite club of global CEOs, who are gung-ho about the prospects for the country.

Call it reform dictated by ever-increasing demand. As India's foreign trade takes to new peaks, the ports sector is cruising ahead. Ever since the sector was opened for 100 per cent foreign direct investment (FDI) in the early 1990s, and eventually emerged as the unsung hero of India's liberalisation policies, there has been no looking back.

Private ports and terminals have sprung up on both the west and east coast of India; many other international operators are waiting in the wings to set up their facilities; 12 major ports – owned by the government – are stepping up investments mostly through private participation and public-private partnerships (PPPs); the government has enhanced investments from its kitty, especially for dredging and overall land-side infrastructure; and the list goes on.

Major ports are on a mega make-over mode. At least five leading ports – Vishakapatnam (Vizag), Kolkata, Mumbai, Chennai and Kandla have now gone past the 50-million-tonne cargo throughput threshold, in the last financial year (April, 2006 – March, 2007). Mumbai,

Chennai and Kandla joined the exclusive club during February-March in style.

"Our throughput on March 14 stood at 50.04m tonnes, as against the Shipping Ministry's target of 50.6m tonnes for the financial year," says an elated Janardhana Rao, chairman of Kandla Port Trust. "We will comfortably surpass the target for 2006-07," he says confidently. "We have seen a steady increase in the quantum of container traffic, crude oil and petroleum products, edible oil and grains handled at the port. The container throughput will increase further when the revamped box terminal comes up."

His counterpart at Chennai Port Trust, K Suresh, is equally delighted. "For an old port like Chennai, 50 million tonnes is a significant achievement, considering the fact that three years ago we lost almost 9 million tonnes of thermal coal to the newly-built Ennore Port," says the port trust chairman. "We have now bounced back strongly."

The growth in major ports' cargo throughput is evident from the numbers. The annual aggregate cargo handling capacity of major ports increased from 397.5 MT per annum (MTPA) in 2004-05 to 456.20 MTPA in 2005-06, with the average turnaround time hovering around 3.5 days in 2005-06.

According to the Economic Survey of 2006-07, the total traffic carried by both the major and minor ports during 2005-06 was estimated at around 570 MT. The 12 major ports carry about three-fourths of the total traffic, with Vishakapatnam as the top traffic handler in each of the last six years.

Despite having adequate capacity and modern handling facilities, average turnaround time is three-and-a-half days as compared with 10 hours in Hong



Indian ports are in a mega makeover mode, attracting international operators and domestic ones as well, writes **Aju Joseph**



BUSTLING PORTS: Major ports are reporting record throughputs

Kong. The Survey pointed out that the congestion is due primarily to the slow evacuation of cargo rather than a lack of handling capacity, since ports are not adequately linked to the hinterland.

All port trusts have set up groups with representatives from National Highway Authority of India (NHAI), the Railways, and state governments to prepare comprehensive plans aimed at improving road-rail connectivity of ports. "An efficient multimodal system, which uses the most efficient mode of transport from origin to destination, is a prerequisite for the smooth functioning of any port," notes the Survey. "It involves coordinating rail and road networks to ensure good connectivity between port and hinterland."

During 2006-07 (up to October 2006), cargo handled by major ports registered a growth of 6.6 per cent, down from 10.4 per cent recorded in the corresponding seven months of 2005-06. About 80 per cent of total volume of ports' traffic handled was in the form of dry and liquid bulk, with the residual consisting of general cargo, including containerised cargo.

"There was an impressive growth of 13.6 per cent per annum in container traffic during the five years ending in 2005-06. But India has a long way to go," says a senior port consultant with Deloitte.

For instance, the largest container port in the world in 2005, Singapore, processed 23.19 million 20-ft equivalent container units (TEUs). The tenth largest port, Los Angeles in the US, processed 7.49 million TEUs. In contrast, Jawaharlal Nehru Port (JNPT), India's largest container port, accounting for around 60 per cent of country's total container traffic, has managed 3.3 million TEUs in 2006-07 (as on March 31, 2007).

An industry analyst said the container throughput is skewed, with 70 per cent being concentrated on the west coast leading to excessive pressure on the road and railway network and congestion. A K Mohapatra, secretary, Ministry of Shipping, agrees. "Ports are a manifestation of the economic growth of the country. Ports on the west coast were developed on account of the westward movement of cargoes from the hinter-

land. Unfortunately, this is not happening on the east coast. Shippers find it easier to move their cargo westward," says the secretary.

Industry analysts point out that leading ports, both government-owned and private, are looking to scale up their cargo handling capacities and available infrastructure, and have lined up an unprecedented capital expenditure programme that could amount to a whopping \$12 billion.

Among them, JNPT, Mumbai Port Trust (MbPT), Cochin Port Trust (CoPT) and other government-owned ports, private terminals at JNPT, CoPT and Chennai, minor ports at Mundra, Krishnapatnam, Pipavav and Rewas are lining up mega capacity addition and dredging projects.

Private investment is in sharp focus with port capacity expected to double from 660 million tonnes in 2005-06 to 1,225 million tonnes by 2013-14. Under the ambitious National Maritime Development Programme (NMDP), chalked out by the government, 276 projects will be implemented at an investment of \$12.7 billion. The government is anticipating private investment of \$7.9 billion under the NMDP by 2012.

These are apart from most private port expansion projects. While the Ahmedabad-based Adani group is investing around \$232 million in Mundra, Maersk group is ramping up its investments in Pipavav Port and Gateway Terminal India (GTI), which operates the

third container terminal at JNPT.

"So far, we have invested around \$500 million in India, primarily in two port projects – Pipavav and GTI," says Kolding. "In Pipavav Port, APM Terminals and group companies hold 52 per cent, while financial institutions such as IDBI, IL&FS, IDFC, AMP and New York Life hold the remaining 48 per cent. Both GTI and Pipavav will be independent of each other, and one would not be treated as a supplementary to the other."

His group is also evaluating other investment options, which, according to him, are "too early to comment on."

Dubai Ports World (DPW), by far the largest private investor in India's ports sector, operating 5 container terminals in India including the first private terminal at JNPT, has committed an additional investment of \$2 billion in its Indian operations.

"India is definitely on the growth path. However, the government should encourage private investments, if it wants ports and container terminals to complement the growth," says Ganesh Raj, senior vice president and managing director, DPW's Indian operations.

The frenzy is unprecedented, and imperative as well, if India has to catch up with the growth in its foreign trade, which clocked 20 per cent-plus annualised growth. India is steadily increasing its share in the international market, and the Commerce Ministry has targeted 1.5 per cent share (by value) of total international export-import trade by 2009.



MANIFESTATION OF ECONOMIC GROWTH: Cargo evacuation is being speeded up



GROWING COMPETITION: India's 'A' category ports would soon start competing with international ports including Dubai and Colombo

This means that India's exports in three years should nearly double at \$195 billion from \$101 billion achieved in 2005-06.

The government is currently working on a new model for privatising container terminals at major ports. The 'cost-plus formula' has left many private container terminal operators bleed. Under the existing formula for determining return on capital employed (RoCE), India's port regulator – Tariff Authority for Major Ports (TAMP) – allows operators only 15 per cent profit margin.

Most operators have won concession agreements from port trusts by promising them huge annual revenue sharing – anywhere between 30 per cent and 50 per cent, which is not treated as cost by TAMP.

Says Arun Bongirwar, TAMP chairman: "We understand that the Planning Commission is working on an alternate method. If the government approves it, we will implement the same." He, however, adds that the cost-plus formula never prevented global operators from bidding in India. "There are more than three-dozen parties interested to bid for JNPT's proposed fourth terminal," he points out.

The Indian Private Ports and Terminals Association (IPPTA) has now suggested that tariff should be the bidding

criterion for port sector projects while revenue-sharing between the private port operator and the government should be fixed. The Shipping Ministry has, however, expressed concerns over the one-time setting of tariff through competitive bidding. According to Ministry officials, determining tariffs for a concession period as long as 30 years would not be practical. The Planning Commission is expected to sort out the issue amicably without any delay.

SS Rangnekar, director (container) of Shipping Corporation of India (SCI), says a few other "issues" need to be tackled immediately as well, to keep the growth momentum. Owing to the inadequate infrastructure in various services including customs facilitation, electronic data interchange (EDI) and documentation, among others, the transaction cost in India has remained very high and placed at around 10-12 per cent of the imported value of the goods.

Compare this with the transactional cost in the developed world, which stands at 4-4.5 per cent. "There is definitely room for improvement," says Rangnekar, who also insists on the importance of developing coastal shipping, so far largely neglected. "This is the cheapest mode of transportation, and has the potential to decongest India's busy roads," he says. Analysts point

out that India's freight transport system carries about 1000 billion tonne-kilometers; the modal share being road 60-65 per cent, rail 30-32 per cent and coastal shipping 6-7 per cent. With the economy growing at 7-8 per cent, freight transport demand is likely to grow to 2000 billion tonne-km in the next 8-10 years.

After extensive analyses and studies, Mumbai-based market advisory company, Crisil, concluded that most 'A' category ports on India's west coast – including JNPT, Mundra and Pipavav – would soon be competing with international ports in Dubai and Colombo, and among themselves. Kochi, Vizag, Kandla, Hazira and Mumbai will also compete with them shortly.

What makes Indian ports tick at a time when competition from nearby non-major and private ports is getting tougher by the day? "India's fast growth in exports and imports, especially in dry-bulk cargoes such as coal and iron ore, and growth in container throughput, has forced ports to expand capacities," says the Deloitte official. "Some ports have seen their existing infrastructure inadequate to cope with the growth." This needs to change quickly as a lion's share of India's international trade – 95 per cent by volume and 70 per cent by value – is carried on through maritime transport. 🌈